

Fujitsu workers discuss quality



Tagging each car on a Toyota assembly line ensures that no parts are missing

Economy & Business

COVER STORY

How Japan Does It

The world's toughest competitor stirs a U.S. trade storm

Like a dazed and bleeding prizefighter trying to call time out in the middle of a round, America's automakers have been pleading for months for relief from the pummeling they have been taking from Japan. While sales of American-made cars have been slumping, Japanese-made Datsuns and Toyotas, Mazdas and Hondas have been streaming through U.S. ports at the rate of some 6,000 vehicles a day. The import flood has given Japan 23% of the entire U.S. car market. General Motors Chairman Roger Smith last week urged a "short-term voluntary" cutback in imports and warned that the alternative was a trade war with Japan. In Washington and Tokyo the Reagan Administration and the government of Prime Minister Zenko Suzuki worked determinedly to settle the most festering trade issue the two countries have faced since World War II.

During the 1980 presidential campaign, Reagan assured autoworkers that he would give relief from the onslaught. But the Administration is now deeply split over the question. Free traders, including Budget Director David Stockman, have argued with a protectionist-minded group

headed by Transportation Secretary Drew Lewis over whether to press Japan to restrain imports "voluntarily." Attorney General William French Smith added to the confusion last week by releasing a memo arguing that any such deal would violate U.S. antitrust rules. The Cabinet last Thursday discussed a report that presented options ranging from legal limits on Japanese auto imports to no action at all, but it reached no decision.

Meanwhile in Japan, the Suzuki government tried to pressure its auto companies to restrain exports. Foreign Minister Masayoshi Ito said that he was "determined" to keep the issue from developing into a more serious political one. The Japanese fear that the auto confrontation will upset Prime Minister Suzuki's visit to Washington in early May. As an advance man for that visit and a conciliator on the auto problem, former Prime Minister Takeo Fukuda traveled to Washington last week and met with President Reagan.

The Japanese car companies so far have been resisting all government pressure to hold down exports to the U.S. But Katsuji Kawamata, chairman of Nissan

Motor Co., maker of Datsuns, hinted that they might accept some compromise in order to head off even tougher U.S. action. Said he: "We cannot continue to act as if we couldn't care less what is happening over there."

What is happening, of course, is the rapid deterioration of a major American industry. Detroit's automakers last year lost more than \$4 billion, and during the past three years, U.S. annual auto production has slumped by 30%, to 6 million vehicles. Today almost 200,000 American autoworkers are unemployed, and many of them have little hope of ever returning to work in their industry. To them and to most U.S. auto executives, the problem is Japanese imports. Since 1975, annual sales of Japanese cars in the U.S. have jumped from 800,000 to 1.9 million.

The trade issue has taken on such importance because of the auto industry's key role in the economy. One out of five American workers is employed either directly or indirectly in making, servicing or selling cars; and industries like steel, glass and rubber are heavily dependent upon automobile sales to keep their own plants operating. In addition, Detroit is



An employee's wedding ceremony at Matsushita Electric's company club



Retired workers learning a new skill

of strategic significance, since General Motors, Ford and Chrysler also make war matériel for the Defense Department.

Detroit's problems have come to symbolize the ills of U.S. business in general. The saga of American cars in the past three years resembles the story of too many industries during the past decade. Television, textiles, steel, calculators, ship-building—American companies once dominated all those markets. But then U.S. executives watched almost helplessly as their customers were snatched away by industrious Japanese competitors selling better products at lower prices.

The arguments of those who favor trade restrictions have varied little since 1791, when Alexander Hamilton, the first Secretary of the Treasury, wrote his *Report on Manufactures*. Hamilton advocated high tariffs as the way to protect new American industries. Reagan Cabinet members such as Drew Lewis and Commerce Secretary Malcolm Baldrige and the heads of American auto companies now argue that the domestic auto industry has been thrown into a temporary upheaval because of consumer demand for fuel-efficient cars. They maintain that if Japanese imports were reduced for a three-year "breathing spell," the U.S. firms would be able to rebuild and begin producing the kind of cars that consumers obviously demand.

The case for free trade is by far the more compelling. It has also changed little since it was set

forth in 1776 by Adam Smith in *The Wealth of Nations*. Treasury Secretary Donald Regan, David Stockman and Chief Economist Murray Weidenbaum argue today that import restrictions would, among other things, penalize consumers by enabling U.S. automakers to raise prices without fear of being undercut by competition from Japan. Protection in the U.S. could also lead

to a dangerous escalating trade war around the world. Such a war would have serious consequences for U.S. foreign and defense policy.

Both the advocates and the opponents of import restrictions admit that the ultimate solution for the troubles of the auto industry is for Detroit to build products that are better and cheaper than anything Japan has to offer. The question, in a word, is how.

Searching for answers to that query has become a growth industry. From Harvard Sociologist Ezra F. Vogel's 1979 treatise *Japan as Number One: Lessons for America*, to U.C.L.A. Management Professor William Ouchi's new *Theory Z: How American Business Can Meet the Japanese Challenge*, academics are telling the U.S. that the most dutiful student of its management practices is now the teacher.

Businessmen are getting the message. After years of smiling while armies of Japanese executives trooped through their offices to learn the secrets of U.S. industry, Americans are seeking a tip or two for themselves. Like pilgrims to the temple of success, they are traveling to an ancient land they can scarcely understand to learn how Japan does it. With a mixture of curiosity and envy they are asking: How has an overpopulated island country with less land than California leaped in only three decades from wartime defeat and the status of industrial sweatshop to that of high-technology dynamo? How has a country that im-



the most excruciating detail, exactly how they conduct business. The nation has an insatiable hunger for foreign technical and scientific manuals. Universities and corporations stockpile them and refer to them assiduously, and businessmen and engineers eagerly use their best ideas.

CONSENSUS. For all their cross-cultural borrowing, the Japanese have remained astonishingly unchanged. One of the most important of their native characteristics is a willingness to achieve consensus by compromising. Asian Scholar Edwin Lee of Hamilton College suggests that a clue to this might be found in the Japanese word *ie*, a concept that can be interchangeably applied to everything from self to home to family. A person is an extension of his immediate family members, his company, his community and his nation as a whole. All are bound together in an encompassing common purpose.

Japan feels itself to be a "family" because in a real sense nearly everyone has at least some voice in running society. No matter what the group—from the smallest upstart enterprise to the largest multibillion-dollar multinational—nothing gets done until the people involved agree. The Japanese call this *nemawashi* (root binding). Just as a gardener carefully wraps all the roots of a tree together before he attempts to transplant it, Japanese leaders bring all members of society together before an important decision is made.

The result is an often tedious, and sometimes interminable, process of compromise in the pursuit of consensus. But in the end the group as a whole benefits because all members are aligned behind the same goal.

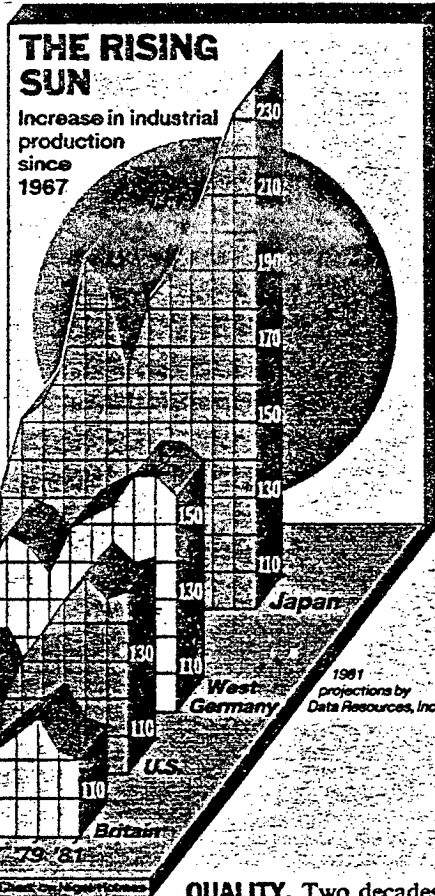
FUTURISM. Japanese society is forward looking in a manner that is difficult for Westerners to understand. Individuals are seen to benefit only through the elevation of the group as a whole; corporations are not after the quick payoff or big quarterly jumps in shareholder dividends, but a solid market position that will be rewarded over the longer term.

Businesses and government look five, ten, even 20 years ahead and try to build a prosperity that can last. Says Eishiro Saito, president of Nippon Steel: "Executives in Japan must constantly do their utmost to provide employees and their families with a stable life and hope for the future."

One reason that the companies are not under constant pressure for fast profits is that much of Japanese industry is owned by banks and not by individual shareholders. Major holdings of many of the country's biggest and best-known companies, such as Toshiba, Fujitsu and Nippon Steel, rest with banks that are less interested in short-range dividend increases than in seeing their firms' profits

reinvested to ensure future growth.

This long-haul mentality is reflected in Japan's dedication to savings. Nothing has given more momentum to the Japanese economic juggernaut than the propensity of its citizens, no matter how wealthy or modest their means, to save their money. Their deposits have given the nation's industry the capital it has needed to keep Japanese plants modern and productive. Says James Abegglen of the Boston Consulting Group, which has conducted numerous studies on Japanese business: "The thing that has enabled Japan to get to the top and stay there is savings. Savings of all kinds—government, corporate, personal." During 1980, Japanese workers saved an estimated 20% of their individual and family incomes, more than three times as much as the Americans.



QUALITY. Two decades ago the words Made in Japan were synonymous with shoddy workmanship, and Japanese products were marketed mainly in 5¢ and 10¢ stores. Yet today firms like Sony and Datsun sell their products principally on the basis of high standards. Says Masao Kanamori, president of Mitsubishi Heavy Industries: "The existence of our company would be impossible if we failed to reassess our performance in quality, production and cost."

This change is a result of the country's preoccupation with quality control, a management concept that until quite recently had been insufficiently considered in the U.S. Yet it was American academics who helped the Japanese improve their products and change their image. One

proposed device was quality-control circles, where workers and their supervisors discuss ways to improve output and standards on the job. Statistician W. Edwards Deming gave a proselytizing speech in Tokyo in 1950 on the virtues of quality control as a manufacturing technique. Since that time, Deming has been elevated in Japan to the status of industrial folk hero. The Deming quality-control award is now one of the most sought-after prizes among Japanese firms.

In Japanese plants and factories, workers are not only encouraged, but actually expected, to make quality control their top priority. At Matsushita Electric, the country's second largest electrical company (1980 sales: \$13.7 billion), workers are instilled with the notion that each one of them is a quality-control inspector. If they spot a faulty item in the production process, they are encouraged to shut down the whole assembly line to fix it. Pressure to improve quality reaches beyond the shop floor and often pits entire plants of competing companies like Hitachi and Sony in furious statistical battles to produce the lowest defect rates for products.

The Japanese today look down on what they regard as the poor quality of American products. Kenichi Odawara, professor of economics at Sophia University in Tokyo, recently published a book on the problems of the U.S. economy and workmanship entitled *The Great American Disease*. One example of that disease is familiar to any Japanese car dealer attempting to sell an American-built automobile in Japan: the cars have to be given an additional coat of paint before they can satisfy the demanding Japanese.

COMPETITION. While Western businessmen often regard Japan as a giant cartel, competition is actually fierce. Japan's thriving domestic market is the principal battleground for most Japanese companies. The products shipped abroad have such high quality and low price in large part because they have already survived the domestic Japanese market. In 1955, for example, the leading motorcycle company in Japan was Tohatsu, while Honda was a distant No. 2. By 1964 the more competitive Honda dominated the local market and Tohatsu had begun moving into other fields. Today the company is principally a manufacturer of small engines and snowmobiles. Says one American economist living in Japan: "Their idea of competition is different from ours, yet they compete furiously. It is all done within the context of being very Japanese—orderly."

New products hit the domestic Japanese market with dizzying frequency. In the electronics industry alone, eight major and a dozen minor semiconductor firms are battling for a lead in the manufacture of microprocessors and so-called computers on a chip. American firms pioneered this technology in the late 1960s, but Japanese companies have already captured 30% of the world market for computer memory chips.

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The rush to use the chips has propelled the nation's automakers into headlong competition to come up with new applications. When Toyota last year introduced the world's first chip-operated voice synthesizer to warn drivers of low fuel and fluid levels in their cars, Nissan Motor hustled out its competing versions within weeks.

Taken together, these five qualities have furthered a national spirit of compromise and cooperation and a willingness to endure short-term setbacks for the long-term good of the nation, company or family as a whole. Says Shiro Miyamoto,

an official of the powerful Ministry of International Trade and Industry: "Our system is born of the traditions and history of this country, a small nation with few resources. Without our way of doing things, there would be continual conflict and nothing would ever get done."

When these Japanese characteristics are brought into the modern factory, the result is a smoothly functioning enterprise that produces quality goods. This is most clearly seen in the easy working relationship of management and labor. Japan has fewer strikes and less labor unrest than any other major industrial power. In 1978

Japan lost 1.4 million workdays because of strikes, while the U.S. lost 39 million.

To a Japanese worker, his company is not an oppressor but rather the source of his income and the expression of his place in society. Says Ryutaro Nohmura, 57, who owns a tentmaking firm in Osaka: "Employees in Japan view their company as an extension of their family life. Indeed many of them equate the importance of their company with that of their own life."

The workers trust their bosses to make the right decisions because there is a pervasive sense that both labor and management are working together. In Japanese

Consensus in San Diego

Japanese managers are famous for inspiring loyalty, long hours and high-quality production in their workers. But can they carry that management skill with them to other countries? TIME Correspondent D.L. Coult last week visited a Sony television manufacturing plant in San Diego where Japanese executives help supervise 1,800 workers. Her report:

Time clocks are banned from the premises. Managers and workers converse on a first-name basis and eat lunch together in the company cafeteria. Employees are briefed once a month by a top executive on sales and production goals and are encouraged to air their complaints. Four times a year, workers attend company-paid parties. Says Betty Price, 54, an assembly-line person: "Working for Sony is like working for your family."

Her expression, echoed by dozens of other American Sony workers in San Diego, is a measure of the success achieved at the sprawling, two-story plant, where both the Stars and Stripes and the Rising Sun fly in front of the factory's glistening white exterior. This year the San Diego plant will turn out 700,000 color television sets, one-third of Sony's total world production. More significantly, company officials now proudly say that the plant's productivity approaches that of its Japanese facilities.

Plant Manager Shiro Yamada, 58, insists that there are few differences between workers in the U.S. and Japan. Says he: "Americans are as quality conscious as the Japanese. But the question has been how to motivate them." Yamada's way is to bathe his U.S. employees in personal attention. Workers with perfect attendance records are treated to dinner once a year at a posh restaurant downtown. When one employee complained that a refrigerator for storing lunches was too small, it was replaced a few days later with a larger one. Vice President Masayoshi Morimoto, known as Mike around the plant, has mastered Spanish so he can talk with his many Hispanic workers. The company has installed telephone hot lines on which workers can anonymously register suggestions or complaints.

The firm strives to build strong ties with its employees in the belief that the workers will then show loyalty to the company in return. It carefully promotes from within, and most of the assembly-line supervisors are high school graduates who rose through the ranks because of their hard work

and dedication to the company. During the 1973-75 recession, when TV sales dropped and production slowed drastically, no one was fired. Instead, workers were kept busy with plant maintenance and other chores. In fact, Sony has not laid off a single employee since 1972, when the plant was opened. The Japanese managers were stunned when the first employee actually quit within just one year. Says Richard Crossman, the plant's human relations expert: "They came to me and wanted to know what they had done wrong. I had to explain that quitting is just the way it is sometimes in Southern California."

This personnel policy has clearly been a success. Several attempts to unionize the work force have been defeated by

ROBERT BURROUGHS



Mike Morimoto in Sony's cafeteria line

margins as high as 3 to 1. Says Jan Timmerman, 22, a parts dispatcher and former member of the Retail Clerks Union: "Union pay was better, and the benefits were probably better. But basically I'm more satisfied here."

Sony has not forced Japanese customs on American workers. Though the company provides lemon-colored smocks for assembly-line workers, most prefer to wear jeans and running shoes. The firm does not demand that anyone put on the uniforms. A brief attempt to establish a general exercise period for San Diego workers, similar to the kind Sony's Japanese employees perform, was dropped when managers saw it was not wanted.

Inevitably, there have been minor misunderstandings because of the differences in language and customs. One worker sandblasted the numbers 1 2 6 4 on a series of parts she was testing before she realized that her Japanese supervisor meant that she was to label them "one to 64." Mark Dempsey, 23, the plant's youngest supervisor, admits that there is still a vast cultural gap between the Japanese and Americans. Says he: "They do not realize that some of us live for the weekend, while lots of them live for the week—just so they can begin to work again." Some workers grumble about the delays caused by the Japanese system of managing by consensus, seeing it instead as an inability to make decisions. Complains one American: "There is a lot of indecision. No manager will ever say do this or do that."

Most American workers, though, like the Japanese management style, and some do not find it all that foreign. Says Supervisor Robert Williams: "A long time ago, Americans used to be more people-oriented, the way the Japanese are. It just got lost somewhere along the way." The Sony experience in San Diego might show Americans how to regain some of their lost skills at employee relations.